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# Weekly Review

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26 July 1974

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The WEEKLY REVIEW, issued every Friday morning by the Office of Current Intelligence, reports and analyzes significant developments of the week through noon on Thursday. It frequently includes material coordinated with or prepared by the Office of Economic Research, the Office of Strategic Research, and the Directorate of Science and Technology. Topics requiring more comprehensive treatment and therefore published separately as Special Reports are listed in the contents.

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Turkish paratroopers take up positions

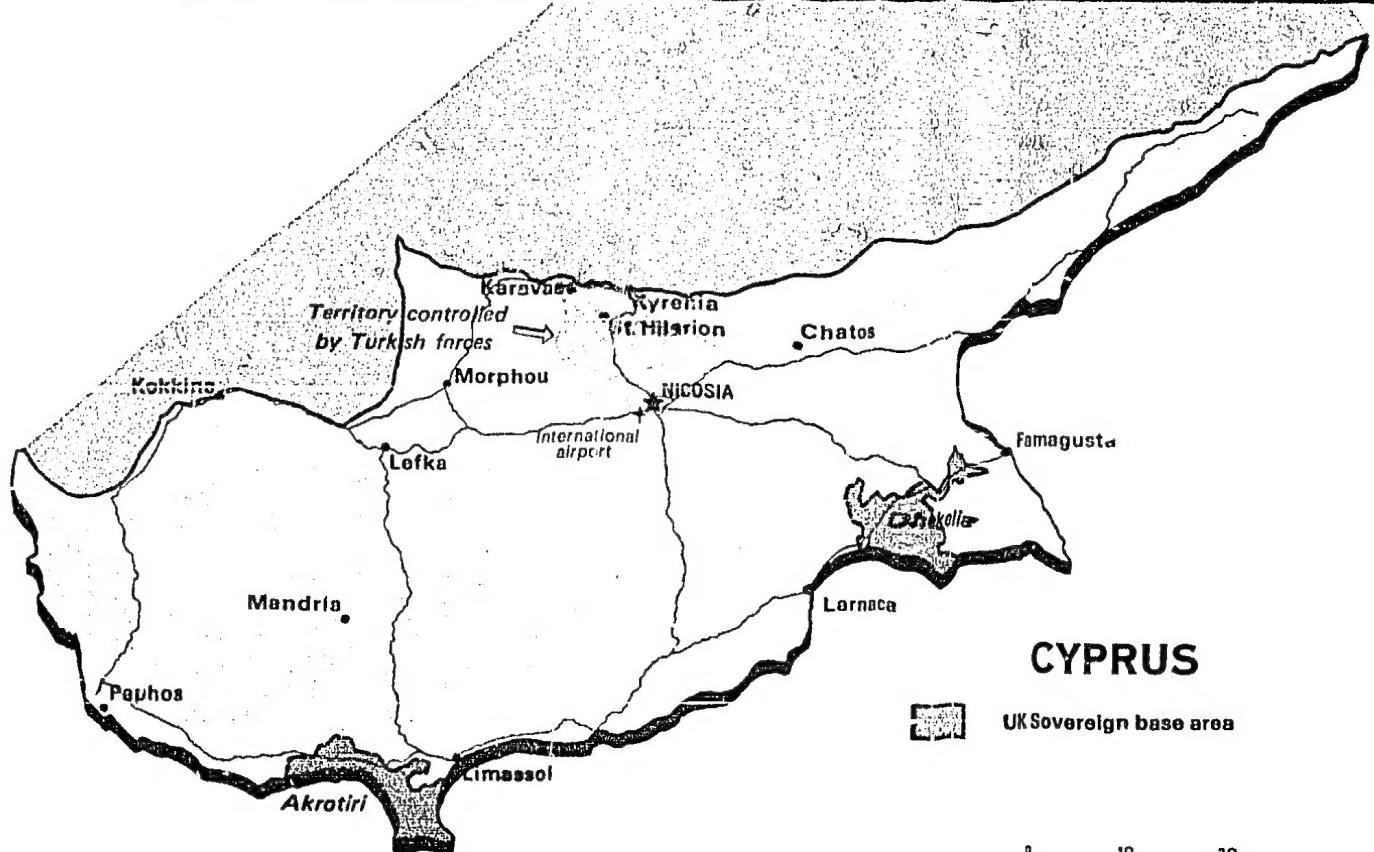
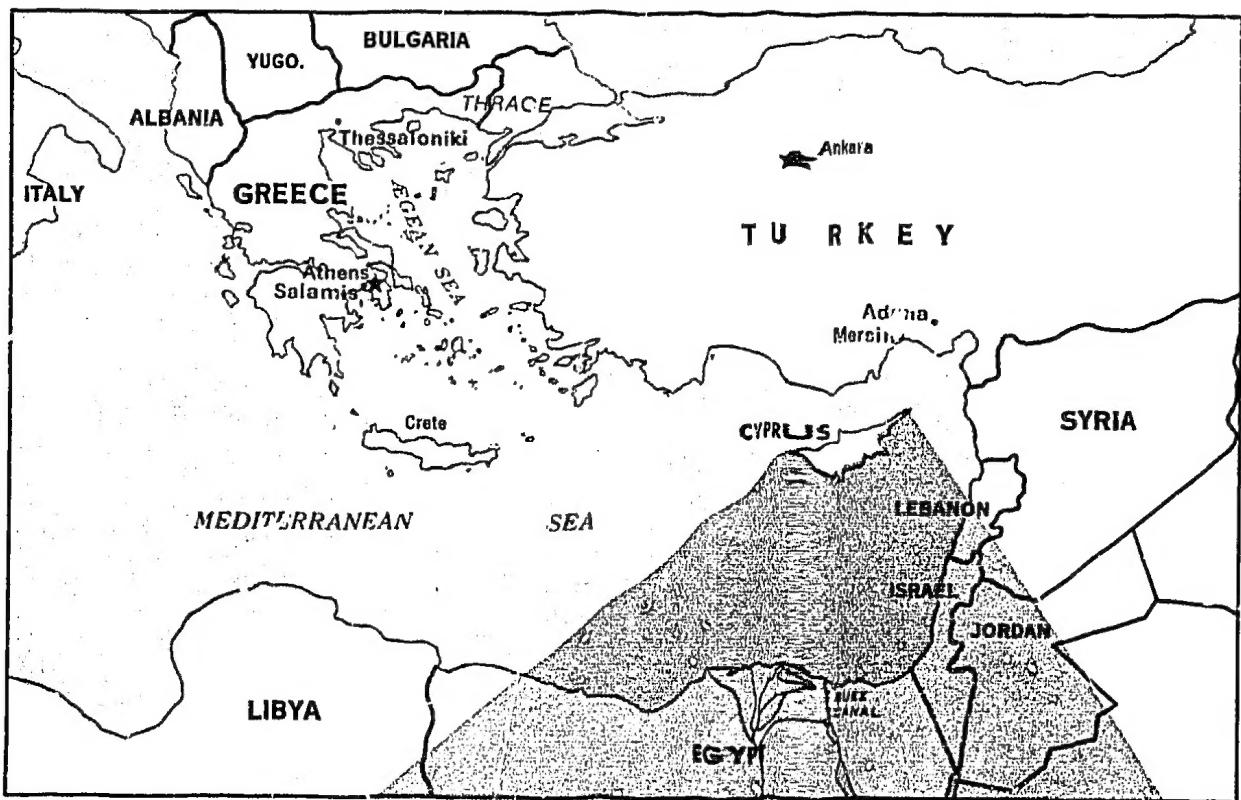
## CYPRUS

The Turkish invasion of Cyprus on July 20 set off a chain of events that culminated in government shake-ups in Athens and Nicosia. In Greece, disagreement over how to react to the invasion and deal with the military regime's international isolation led to the junta's stepping aside and the transfer of power to a civilian government headed by former conservative prime minister Constantine Karamanlis. In Cyprus, Nicos Sampson was replaced as president by Glafkos Clerides, president of the House of Deputies and constitutional successor to Makarios. The failure of the Turkish military to obtain all its objectives quickly has resulted in some recriminations

within military and political circles in Ankara, but the Turkish government views the invasion and its consequences as a diplomatic triumph for its policies.

### THE POLITICAL REPERCUSSIONS

Greek President Gizikis announced on July 23 that the military, which had ruled Greece since 1967, was withdrawing from politics and turning over power to a civilian government headed by Karamanlis. The decision was reached after extended discussions with former prime ministers and other prominent politicians and was probably



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Karamanlis

sparked by the senior officers' disenchantment with the result of Greek strong man Ioannidis' adventuresome policy toward Cyprus. The military reportedly agreed to stay out of politics and give Karamanlis a free hand. In his acceptance speech, Karamanlis pledged to work for the restoration of normalcy and democracy. Later in the day, a government of "national unity" was formed, comprising veteran center-right politicians and government experts. The fact that no representatives of the left were included probably reflects the desire of both the military and Karamanlis. Leftists responded to their exclusion by organizing a meeting to determine their course of action. They plan to send a message to Karamanlis demanding that all parties be represented in the government.

The new Greek government immediately announced a series of liberalizing measures and declared that it considers Makarios to be the legal president of Cyprus. George Mavros, the new foreign minister, was dispatched to Geneva to take part in the tripartite talks with Britain and Turkey that will deal with the Cyprus problem.

In Cyprus, the replacement of Nicos Sampson by Clerides was probably inspired by a desire to improve the government's respectability and to place it in a better position to negotiate with the Turks, who had made known their strong objection to Sampson. It was also linked to the changeover in Athens. One of Clerides' first acts as president was to meet with Turkish Cypriot leader, Rauf Denktash, to seek ways of enforcing the UN-sponsored cease-fire.

Speaking in New York, Archbishop Makarios expressed pleasure over Clerides' elevation to the presidency but added that he expected to return to Cyprus in a few weeks to resume his duties as president. Clerides later said it would be unwise for Makarios to return to the island, but Athens' announcement of support for Makarios leaves Clerides' tenure in doubt. Under the Cypriot constitution, the president of the House of Deputies assumes the role of acting president in the event of the incapacity or absence of the president, pending new elections. These must occur within 45 days.

In Turkey, the decision to invade was met with widespread popular approval, but the US embassy reports a growing undercurrent of feeling that the Turkish military did not perform as well as had been expected, despite official statements to the contrary.

When the three-power talks open in Geneva this week, Ankara intends to call for the creation on Cyprus of a federal government that would not involve partition of the island.

#### THE MILITARY SITUATION

Turkish troops landed on the north coast of Cyprus at dawn on July 20. Troops from about 40 ships and landing craft went ashore near Kyrenia, some 15 miles north of Nicosia, and paratroopers were dropped in the vicinity of the capital itself. The Turkish forces quickly met stiff resistance from the Greek Cypriot National Guard.

The Turks continued to move troops to Cyprus on July 21. They secured their position

on the beachhead around Kyrenia, but made little progress in consolidating newly won territory between the beachhead and Nicosia. By nightfall, the Turks had not achieved any of their major objectives, and the momentum appeared to be shifting to the Greeks. Throughout the rest of the island, the Greek Cypriot forces—better equipped and far more numerous—clearly had gained the upper hand in the intercommunal fighting, as Turkish Cypriot resistance in most areas began to collapse.

The Greeks and the Turks used the last hours before the cease-fire to continue strengthening their forces on the island. The Greeks landed paratroopers at Nicosia airport—the first commitment of regular Greek forces in the war. At the same time, the Turks landed additional troops near Kyrenia.

The uneasy truce was marked through mid-week by several clashes and occasional exchanges of small-arms fire as both sides moved to improve positions or gain ground in areas where they had the upper hand. The Turks continued to transfer forces to Cyprus, and were close to achieving their major objectives by the evening of July 23.

The level of fighting had decreased substantially by July 24, although the Turks were pressing to gain control of Nicosia airport from the UN forces. Late that day, the Turkish ambassador to the UN stated that Turkish forces would not attempt to seize the airport, although the situation there remained tense. The Turks also continued to reinforce their troops on the island through most of the week, with the apparent intention of meeting their original goal of putting about 25,000 troops ashore.

On the mainland, the Greeks had completed military mobilization by mid-week, and their forces in northern Greece and Thrace were ready to begin combat operations. The Turks also had moved additional forces up to the border in Thrace, but their primary goal appeared to be to improve defensive positions in the area. Nevertheless, there were some signs of reduced tensions, and both sides had opened up some areas to normal sea and air transport by July 25.

### THE TURKISH INVASION

The Turkish military operation on Cyprus did not go as well as projected. The principal Turkish military objective, according to President Ecevit, was to establish a "balance of forces" on Cyprus by placing about 25,000 men on the island. Their tactical objectives were to reinforce the Turkish community in Nicosia, secure the Kyrenia-Nicosia road, and take control of the Nicosia airport. To accomplish this, the Turks planned to transfer approximately 10,000 troops from the mainland on the first day. The remaining 15,000 troops apparently were to be brought in over a period of several days.

The strategy seems to have lacked military logic and was clearly dictated by political considerations. In an attempt to land at a point closest to the largest Turkish Cypriot enclave, the Turks chose one of the poorest tactical locations for an amphibious assault. Turkish military planners also badly misjudged their capability to transfer troops quickly to Cyprus. The Turks continued to send reinforcements as late as July 25, six days after the initial landing, apparently in an attempt to meet their original goal of putting 25,000 men on the island. And finally, the Turks evidently misjudged both the fighting ability of the Greek Cypriot National Guard and the ability of outlying Turkish Cypriot enclaves to hold out. As a result, two of the limited objectives that the Turks set for their main forces were not achieved until the fourth day. The objective of seizing the airport may now be beyond reach.

### SOVIET REACTION

Moscow's response has been cautious. A government statement released on July 20 called for the withdrawal of all foreign troops and bitterly criticized Greece and "some NATO member countries" for the coup, but avoided any bellicose threats.

The Soviets were openly sympathetic to Ankara's invasion, probably because they hoped that it would prevent enosis and cause disruption in NATO. The Soviets were worried, however, that the invasion would lead to partition.

The Soviets are pleased about the resignation of Sampson, but they have been circumspect in discussing their views of Clerides. Clerides' opposition to partition and his neutralist international views may eventually lead Moscow to find him acceptable. The Cypriot Communist Party, which in the past has followed the Moscow line on most issues, has already indicated in private that it plans to support Clerides. Soviet diplomats, nevertheless, continue to see Makarios in New York, and Moscow will probably keep on expressing support for him.

Meanwhile, Moscow has charged that the US and Britain had initially attempted to paralyze effective Security Council action and are now trying to pose as "peacemakers." One Tass commentary asserted that Soviet diplomatic demarches and pressure in the UN were largely responsible for the cease-fire. Moscow has been careful, however, to avoid actions that would strain East-West relations; they formally denied a report that "all" their forces were on alert.

The Soviets evacuated some of their citizens from Cyprus on July 24. A Soviet cruise ship was diverted to pick them up.

#### DEVELOPMENTS AT THE UN

The UN has focused on calls for a cease-fire and on support for its peacekeeping efforts on Cyprus. Early in the week, the Security Council unanimously passed a resolution calling for an immediate cease-fire and for the withdrawal of all foreign military personnel whose presence was not in accordance with international treaties—an implicit reference to the Greek officers in the

National Guard. The expected credentials battle between the representatives of the short-lived Sampson regime on Cyprus and the former Makarios government did not materialize after the council conditionally recognized Makarios as the head of government. The council met again on July 23 at the request of Greece to discuss alleged Turkish violations of the cease-fire and reaffirmed its call for a cease-fire.

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The safety and effectiveness of the peace-keeping forces on the island was also discussed by the council. Secretary General Waldheim presented his views on the necessity of augmenting the peacekeeping forces already on the island and requested Austria, Australia, Canada, Denmark, Finland, Ireland, Sweden, and the UK to increase the size of their contingents. Although Waldheim requested that the present 2,300-man force be doubled, the contributing states have yet to offer a sufficient number of troops to meet this goal.

#### NATO'S ROLE

The Turkish decision to land troops on Cyprus and the threat of a military clash with Greece confronted NATO with what the US and Belgian representatives termed "its most serious crisis." The North Atlantic Council met almost continuously to keep NATO members informed on moves by the US, the UK, and the EC Nine under French leadership to head off an armed clash between Greece and Turkey.

Consultations among the allies were enhanced by the establishment early in the week of a special Cyprus group, which included Secretary General Luns and representatives of the US, the UK, and the EC Nine. Formation of this group enabled consultations and an exchange of information to proceed without the presence of the Greek and Turkish representatives, whose competing interests had hindered NATO cooperation in earlier Cyprus flare-ups. At week's end, most members seemed satisfied with the effectiveness of the consultations, in marked contrast to the bitter recriminations that followed the Middle East and oil crises.

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Sadat (right) greeting Husayn

## THE MIDDLE EAST

### THE ARABS: HARMONY AND DISCORD

King Husayn won a far-reaching concession from President Sadat last week in efforts to assert Jordan's right to negotiate an Israeli withdrawal from the West Bank. In a joint communique issued on July 18 at the conclusion of Husayn's talks with Sadat in Alexandria, Egypt not only agreed that disengagement on the Jordanian front should be the next step in negotiations with Israel, but also recognized Husayn's right to speak for Palestinians living within the "Hashemite Kingdom of Jordan." Sadat thus backtracked from Egypt's earlier support for the Palestine Liberation Organization as the representative of all Palestinians, a position formally established at the Arab summit meeting in Algiers last November.

In a minor concession, Husayn agreed to support the participation of an independent PLO

delegation in the Geneva talks at an unspecified "appropriate time." The King was already on record as having no "objections" to the PLO attending the peace conference.

Egyptian Foreign Minister Fahmi was quick to add, after the Sadat-Husayn discussions, that Egypt still recognized the PLO as the legitimate spokesman for Palestinians in Gaza and the West Bank, and that Jordan simply held the West Bank "in trust." In thus attempting to exploit the communique's ambiguity to reassure the Palestinians, however, Fahmi could not explain away Egypt's agreement with Husayn that Jordan rather than the Palestinians is responsible for negotiating at least the first step of a West Bank withdrawal.

Fahmi's attempt at explaining Egypt's position did little to assuage Palestinian radicals or even fedayeen moderates, almost all of whom condemned the communique. Fatah, the largest fedayeen group, labeled it a "retreat" from the Arab summit's recognition of the PLO as the "sole" representative of the Palestinian people. The Syrian-controlled Saqiya organization echoed Fatah's stand.

Yasir Arafat, chief of both the PLO and Fatah, has withheld public comment on the Egyptian-Jordanian statement, but it has clearly placed him and other moderates, who have supported Sadat's policies in fedayeen inner circles, on the defensive. The communique makes the moderates' task of marshaling Palestinian support for direct talks with Husayn or for Palestinian participation in the Geneva talks even more difficult than before. Arafat has already postponed his projected visit to Egypt in hopes of buying time to find some way out of his latest dilemma.

In exchange for Egyptian support, Sadat prevailed on a reluctant Husayn to request a postponement of the Arab summit meeting, scheduled for early September. The Egyptians argued that they needed more time to work out a rapprochement between the fedayeen and Jordan. Sadat

obviously also wants to avoid exposing himself to criticism from Damascus by asking for another postponement, as he did last spring in spite of Syrian objections.

Amman sent a formal request for a postponement to the secretary general of the Arab League and dispatched two special envoys to Damascus at the same time to try to secure President Asad's support.

Earlier this week, Syrian Foreign Minister Khaddam issued a public statement opposing a postponement of the Arab summit, and Arafat requested that the conference be moved up.

Asad has tried to woo both the PLO and Jordan, and he undoubtedly sees Sadat's latest moves as an effort to outmaneuver and isolate Syria. The Syrian President told the Jordanian envoys that he did not understand the reasons for Sadat's acceptance of the Jordanian position, but he advised them that the Egyptians would probably disavow their support or try to confuse its meaning at the first opportunity. Husayn has his own doubts about the constancy of Cairo's support, but he believes that Egypt's new posture strengthens Jordan's hand in negotiations with Israel.

#### THE ISRAELIS: CAUTION IN THE CABINET

Reflecting the traditionally cautious Israeli approach to Middle East peace talks, Prime Minister Rabin's cabinet issued a statement on July 21 saying that the government is prepared to work toward a settlement with Jordan, but only on the basis of its previously outlined, tough negotiating position.

The statement, [redacted] presumably meant to reflect the government's initial bargaining stance, reiterated Israel's opposition to a separate, independent Palestinian state between Jordan and Israel. It affirmed that only two states can exist in this area: Israel, with a united Jerusalem as its capital; and a Jordanian-



Prime Minister Rabin

Palestinian state east of it, within borders to be determined by bilateral Israeli-Jordanian negotiations.

The cabinet rejected by a vote of 11 to 5 a liberal proposal to acknowledge explicitly the possibility of conducting talks with Palestinian "factors" that are willing to recognize Israel and its independence on the basis of agreed-upon and secure borders. This rejection, however, would not appear to bar Palestinian participation in a Jordanian delegation. Moreover, it does not seem to foreclose the possibility—outlined in mid-July by Information Minister Yariv—that the government might be prepared to talk with the PLO in the event it ceases its terrorist activities and acknowledges the existence of the Jewish state of Israel.

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Although the cabinet reportedly ruled out negotiating an interim settlement with Jordan like those concluded with Egypt and Syria, the government is only in the first stages of working out its position on the Jordanian question, and key issues of substance and timing remain open.

[redacted]

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[redacted]

## LIBYA: QADHAFI IN RETREAT

President Qadhafi—sobered by his experiences over the last several months—has retreated to an overseer role in Libyan politics. Since he transferred many of his formal duties to Prime Minister Jallud in early April, the Libyan leader has spent most of his time on unpublicized tours of the countryside or in seclusion at his home in Tripoli. Qadhafi apparently is not prepared to abdicate his primacy on the ruling Revolutionary Command Council, nor have his colleagues pressed him to do so. Unlike his "staged" retreats in the past, however, Qadhafi appears to be seeking both a respite from his difficulties and the safety of shared leadership.

Qadhafi's difficulties are essentially of his own making, brought on by his unwillingness or inability to adapt to a new mood in the Middle East. His audience at home and in other Arab countries is no longer responding to the militant promises and brash actions that once were a popular salve for Arab frustrations. Qadhafi's uncooperative attitude during the October war and his efforts to obstruct a united Arab negotiating policy have isolated Tripoli from all but the most extreme Arab circles.

Even before the war, the Libyan leader was running into trouble. His unsuccessful attempt to push an ill-conceived union on Egypt not only damaged Qadhafi's prestige both at home and in the Arab world, but also jeopardized Libya's internal development, which depends heavily on Egyptian manpower and expertise. Perhaps the most serious blow was the fiasco surrounding Qadhafi's bid for merger with Tunisia last January. His attempt to manipulate President Bourguiba further discredited the Libyan as a serious proponent of Arab unity and provoked criticism from other Arabs, who were angered by his meddling in Tunisia's domestic affairs.

Qadhafi's failures have badly shaken the confidence of other members of the ruling council, and they are now less willing to tolerate his arbitrary actions. For some time, they and key military officers have been pressing him to moderate his free-wheeling approach to foreign policy and

to share major decision making with them. Although the fundamentals of Libyan policy are apparently not at issue, Qadhafi's style, judgment, and priorities are. These grievances—although not new—are now being expressed more forcefully, and Qadhafi is not in a position to ignore them.

Not only is Qadhafi facing new political constraints, but more importantly, he is confronted with the first major challenge to his world view. To accept an Arab world prepared to treat with Israel would require a complete reordering of his religious and political convictions—a task that would necessitate greater flexibility and perspective than Qadhafi has yet demonstrated. He apparently intends to struggle in private with his doubts and drives and, for the time being, let his colleagues struggle with the country's problems.

Since early April, Prime Minister Jallud and other council members have assumed most of Qadhafi's executive and administrative functions. The absence of any official comment following the Syrian-Israeli disengagement agreement and the sober tone of the Libyan media suggest that the council is acting more forcefully in an attempt to rectify past mistakes. Qadhafi, however, still has—and is recognized as having—the final say on important matters. There is considerable evidence, for example, that he had carefully directed Prime Minister Jallud's negotiations with the Soviets during his visit to Moscow in May and that he has handled the substantive aspect of talks with visiting Middle East leaders.

The new division of responsibility between Qadhafi and the council is an uncomfortable one for both sides. For the first time, Qadhafi must listen seriously to his colleagues, and they, in turn, can take the initiative only cautiously, knowing that he can still override them. Loyalty to their leader remains the only force that unites them, and they are unable—and probably unwilling—to challenge him directly.

As long as these uncertainties exist, any major departures from current policy are unlikely. Deferring to Qadhafi when necessary and

moving only slowly on his own, Prime Minister Jallud will make only minor adjustments in the tone and style of Libyan policies. Whether this will be sufficient to end Libya's isolation from the other Arabs is questionable.

Qadhafi, for his part, would like to gain more time and distance from formal duties to sort out his dilemma. He has already begun to recapture his home audience by appealing directly to local communities and showing a greater interest in their problems. A more responsive attitude toward these people, to whom he has had great appeal, will go a long way in helping the Libyan leader regain his popularity.

How and when Qadhafi will try to reassert himself in Middle East politics is another matter. The restraining influence of his colleagues and his own recognition of past failure should certainly make him more wary. Moreover, he wants to regain a close alliance with Egypt and may be ready to compromise when and if Cairo demands it. Fundamentally, however, Qadhafi's motivations for changing his ways are probably not strong enough to influence greatly his narrow, emotional outlook. When he does attempt a comeback, it may be punctuated by some dramatic action designed to underscore his own brand of Islamic nationalism.

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#### Ethiopia: MILITARY PULLS THE STRINGS

Emperor Haile Selassie has appointed a new Prime Minister, handpicked by Ethiopia's politically dominant Armed Forces Coordinating Committee. Mikael Imru, who replaces Endalkatchew Makonnen, is an aristocrat whose views are compatible with those of the moderates running the committee. They hope to restore momentum to the drive for a new constitution and for far-reaching political and social changes.

The committee's action ended several weeks of stalemate resulting from the mutual distrust

between it and Endalkatchew. The deposed prime minister, already under suspicion by the military because of his association with former regimes, was suspected of being involved in an abortive attempt by conservatives to regain control. Late last month, the conservative maneuvering prompted countermoves by the military, including the detention of a large number of former officials.

In contrast to Endalkatchew, Mikael is not tainted by corruption, nor is he a large land-owner. His ability to restore leadership to Ethiopia's demoralized civil servants and to meet popular expectations for social change will depend upon the degree of authority the committee allows him. Additional cabinet changes are expected, and Mikael's status may be clarified by whether the committee permits him to make his own choices or whether it selects the new ministers itself.

The committee, formed in late June, is apparently providing an institutional framework for the military moderates that heretofore they have conspicuously lacked. The committee appears to consist of junior and middle-ranking officers as well as non-commissioned officers, and it seems less amorphous than some of the ad hoc groups through which the military worked in the past. Earlier this month, the committee secured the Emperor's approval for a program of far-reaching changes, including a new constitution to be completed by the end of the year. A commission of inquiry was selected last week to try the arrested former officials for corruption and dereliction of duty.

The announcement of Mikael's appointment was couched in terms that foreshadow the figure-head role intended for the Emperor in the new constitution. Nevertheless, the committee apparently would like to avoid pushing the Emperor and his conservative supporters too far. For example, the former deputy commander of the navy and a grandson of the Emperor, Iskinder Desta, was on the list of people to be arrested, but when the Emperor refused to surrender him, the committee did not press the point.

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## ITALY: AUSTERITY POLITICS

The dominant Christian Democratic Party has papered over its internal differences, but the political and economic situation remains unsettled as the Communist Party and organized labor seek to force changes in the government's austerity program.

Developments at the Christian Democrats' National Council meeting late last week should postpone further challenges to the party leadership until the fall. The outcome also deferred the question of closer ties between the government and the Communist Party. But the Christian Democrats' internal troubles, although under control for the moment, are far from resolved.

The Christian Democratic left stressed its dissatisfaction with the party leadership, but it was apparently constrained by the realization that an open left-right split within the party could jeopardize Prime Minister Rumor's efforts to steer the government's economic program through parliament. In addition, the party's most influential left-of-center leader—Foreign Minister Aldo Moro—decided not to break with party chief



Prime Minister Rumor

Amintore Fanfani at this time and thus made it impossible for leaders further to the left to turn their dissatisfaction into an effective challenge.

The left joined in supporting a bland resolution that affirmed traditional party positions in general terms and emphasized once again the ideological differences separating the Christian Democrats and the Communists. Some left-wing leaders, however, made it clear during debate that they favored a more open attitude toward the Communist Party. Minister of Industry De Mita went so far as to call for an undefined "accord" with the Communists, while others labeled the Communists "democratic" and argued that national sovereignty would not be "wounded" if they were to enter the government.

Just before the Christian Democrats met, the country's three major trade union confederations decided to press for changes in the austerity program. The changes that labor wants resemble amendments to the program now being pushed in parliament by the Communists. Their common goal is to reduce the impact of the program on lower income groups and to increase the burden on the wealthy. The Communists are trying to achieve this objective by a parliamentary strategy designed to exploit differences among and within the governing parties without causing a formal split in the coalition. There is some concern in Communist circles, however, that Socialists in the coalition who support the Communist effort could precipitate a government crisis by pressing too hard.

There is room for compromise between the two sides. The government could accept some of the proposed changes in the austerity program without seriously jeopardizing its goal to boost taxes by \$4.7 billion. A few of the proposals, however, such as reducing the increases in utility rates, would cut into the heart of the program by undermining the objective of reducing domestic demand.

The conflict over the austerity program could still cause trouble, but this appears unlikely

because of a widespread desire to keep Rumor's coalition in place, at least through the August holiday. Labor has scheduled a review of its position on the austerity measures for September. One of the coalition parties is on record in favor of a review of the political situation at about the same time. The Communists have scheduled a national congress for early 1975, so they too will be taking stock in the fall.



Franco and Juan Carlos

## SPAIN: LOOKING BEYOND FRANCO

The doctors treating General Franco claimed this week that he will "totally recover" and leave the hospital soon. They added that the phlebitis and other medical problems would have no effect on Franco's capacity to govern. Such announcements seem to be somewhat too optimistic, considering Franco's age and the severity of his relapse last week.

As it became apparent that his illness might leave him unable to carry out the duties of chief of state, Franco temporarily transferred the routine functions of the office to his designated successor, Prince Juan Carlos, as provided by the constitution. Juan Carlos will assume full powers as king only when Franco dies, is incapacitated, or retires. He performed his first official act by signing the joint declaration of principles on European defense cooperation with the US.

The press has stressed the ease with which the constitutional provisions for the temporary transfer of power were carried out. If Franco should die, Juan Carlos' succession is expected to be equally smooth. The government would remain under the leadership of Prime Minister Arias. Arias might submit his resignation to the king as a courtesy following Franco's death, but he is not required to do so. Only last January, the Prime Minister was appointed to a five-year term by Franco, and Juan Carlos would probably decline to accept the resignation in order to minimize the degree of change involved in the transition.

Arias is expected to remain in office for some time unless his policies provoke widespread public disorder. If Juan Carlos were to decide to remove the Prime Minister, however, the constitution requires the consent of the Council of the Realm. The king must select the new prime minister from among three candidates proposed by the 16-member council composed of military and other influential officials.

Speculation about the future government comes at a time when Spaniards are divided on the question of how to deal with dissent and the implications of the events in Portugal. Conservatives are prepared to resort to harsh measures to keep order, while more liberal Spaniards believe that there must be a gradual loosening of the political system so that Spain can assume its place in the West European community.

Prime Minister Arias proposed a program of moderate political and social changes last February. Only a bill providing for the direct election of mayors has been approved by the parliament so far, and it was weakened by an amendment that excludes Madrid and Barcelona. This week, the National Movement, established by Franco as Spain's sole political organization, approved the formation of new political associations that could serve some of the functions of political parties. The association, however, would be under the direct control of the Movement. These moves indicate that while change will come to Spain, the pace will be slow and deliberate.

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## EAST-WEST TALKS ADJOURN

The Vienna force reduction talks adjourned last week with the two sides still deadlocked on basic issues. Prospects are somewhat brighter for the European security conference in Geneva that recesses this week. It may be possible to wind up the conference by the end of the year.

After nine months of negotiations, there has been virtually no substantive progress in the Vienna talks, and both sides are holding fast to the proposals they made in the fall. The Eastern representatives began this negotiating round by taking a hard line, but then proceeded to outline a "first step" agreement in an attempt to move the West in the direction of the basic Eastern proposal. By the end of the round, Eastern representatives had suggested that such a "first step" agreement would provide that:

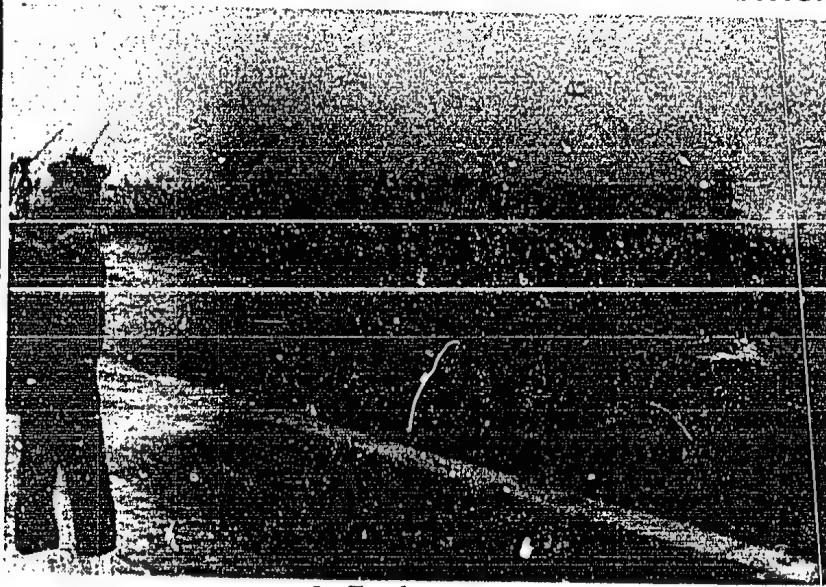
- The West would not incur obligations to go beyond the "first step" because it would not be a part of the East's basic proposal.
- Reductions of 20,000 would be made by each side, although other figures were not out of the question.

- The bulk of reductions in a "first step" could be taken by the US and the USSR.

- Although all direct participants would make a commitment to reduce, the US, the Soviet Union, and perhaps others would initiate reductions, with the other direct participants cutting their forces later.

The East has argued that its "first step" suggestion is the best way to break the deadlock in the negotiations because the agreement is genuinely neutral, containing elements of the proposals of each side. The Allies, however, feel the suggestion is clearly in line with the basic Eastern position, since it calls for equal reductions by the two sides. The West also thinks that such a first step would codify the existing balance of forces in central Europe. This would undercut the Allied argument that the Warsaw Pact has far more ground forces in the region than NATO, and that the security situation must be improved by arriving at a "common ceiling," or upper limit, for the ground forces of each side. In addition, the Allies believe that the Eastern offer to let US and Soviet reductions begin first does not represent

### FRENCH MISSILE SUB OPERATIONAL



Le Foudroyant

The third French nuclear-powered ballistic-missile submarine, Le Foudroyant, is now operational. The submarine was turned over to the navy on June 6, according to press reports.

Le Foudroyant probably will be sent on patrol to replace the Redoutable, which is scheduled for a 15-month overhaul. France's fourth missile submarine, L'Indomptable, will be launched in mid-September.

French missile submarines carry 16 missiles with a range of about 1,300 nautical miles and a warhead of 450 kilotons. Later this year, the French are expected to begin replacing these missiles with versions that have a range of about 1,600 nautical miles.

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much of a concession. One important Western requirement continues to be a clearly defined first-phase agreement in which only US and Soviet reductions would be made.

The Western tactic during this round has been to offer assurances in order to get the East to agree that reductions by direct participants other than the US and the Soviet Union could be deferred to a second phase of negotiations. Most importantly, the Allies have said they would consider a commitment that second-phase reductions would include the ground forces of all non-US direct participants on the Western side. Eastern representatives claim that the Western suggestions are "nothing new."

Little movement on the Soviet side can be expected at the force reductions talks until the European security conference has concluded. That conference is approaching its summer recess with a bit more optimism than has been evident for some time. The participants are close to agreement on the preamble to specific texts in the troublesome area of the freer movement of people and ideas, as well as on two of the specific texts themselves. Delegates are hopeful that further compromises in the fall will resolve the differences between the West, which wants significant agreements in the freer movements area, and the East, which is wary of interference in its countries' internal affairs. There are few signs of progress on military "confidence-building" measures, however. Only a minor measure on exchange visits of military personnel has been agreed upon.

Meanwhile, the Western delegations—at US initiative—have undertaken to define precisely the least they will accept on the freer movement issue as well as in other areas of conference activity. Many of the West Europeans think that it is not necessary to be too specific until further discussions in Geneva. They warn that it would be unwise, from the standpoint of negotiating tactics, to present the West's minimum demands to the East. How the West decides to define and present its minimum demands, and how the East responds in the fall, will determine whether the conference can move into a final stage at which

the results would be officially blessed, perhaps at the summit level.

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## ICELAND: NO COALITION YET

Independence Party leader Geir Hallgrímsson has failed in his bid to form a conservative-led coalition. Incumbent Prime Minister Olafur Johannesson, leader of the Progressive Party, will be asked to try his hand at putting together a government. The formation of another center-left coalition under Johannesson would increase the uncertainty surrounding the outcome of negotiations with the US to retain the NATO base at Keflavik.

Johannesson probably can count on the support of the Liberal Left Organization and the Communist-dominated People's Alliance, both members of the previous Progressive-led coalition. In order to secure a majority, however, Johannesson needs the support of the Social Democrats, led by Gylfi Gislason.

At a special session earlier this week, Gislason was elected president of the new parliament with the backing of all members except those of the Independence Party. The vote for Gislason has been interpreted as evidence that a deal may have been struck that would prepare the way for the Social Democrats to join a Progressive-led government. Gislason told the US ambassador, however, that his election was not conditional on bringing the Social Democrats into a leftist coalition.

Without the Social Democrats, Johannesson's coalition would control only 30 of the 60 seats in parliament. Some Social Democratic leaders indicated earlier that they would not join any coalition at this time, regardless of whether it was led by the Progressives or the Independence Party. This position may not be shared by the entire party, however, and a four-party, center-left coalition could materialize. Such a government might be more balanced on the base issue than the previous coalition.

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## WEST BERLIN: NEW THREATS

Last week, the Soviets and East Germans sharpened their threats to retaliate against the opening of a West German Federal Environmental Office in West Berlin. Bonn is nevertheless moving ahead with the project. Enabling legislation was signed by Federal President Scheel earlier this week, and the office is scheduled to open sometime this fall.

East Germany announced on July 20 that transit of the office's staff and property across East German territory will be considered "unlawful." Pankow's warning came on the heels of a Soviet Foreign Ministry statement declaring that establishment of the office in West Berlin would violate the 1971 Quadripartite Agreement and that it would force the USSR and East Germany to take "appropriate measures" to protect their "legitimate" interests.

The Soviets and East Germans have indicated on several occasions that they feel it is necessary for them to object publicly to the opening of the office. Privately, however, they have assured the West that they will act with restraint. An East German diplomat said earlier this month that his government is obliged to keep up the pressure on the issue, but will avoid any "stupidities." The Soviet counselor in Bonn seemed to hint at one way around the difficulty. He said that the staff of the office might not be able to claim privileges contained in the 1971 Inter-German Access Agreement, but that he doubted if staff members would run into any trouble on the access routes unless they were to disclose their employment with the environmental office.

Although Bonn quickly protested the East Germans' threat, it has taken the public position that any discussion of countermeasures will depend upon the actions of the East Germans. Bonn may be considering a proposal that Moscow has floated in the past: a guarantee by the West that the office will be the last federal institution established in West Berlin.

The Schmidt government, which has been divided all along about the office, may be willing

to go along with a decision by the Western allies to give the Soviets some form of assurance. West Berlin Mayor Schuetz will emphatically oppose any agreement, formal or informal, that would hinder efforts to strengthen the city's ties to the Federal Republic.

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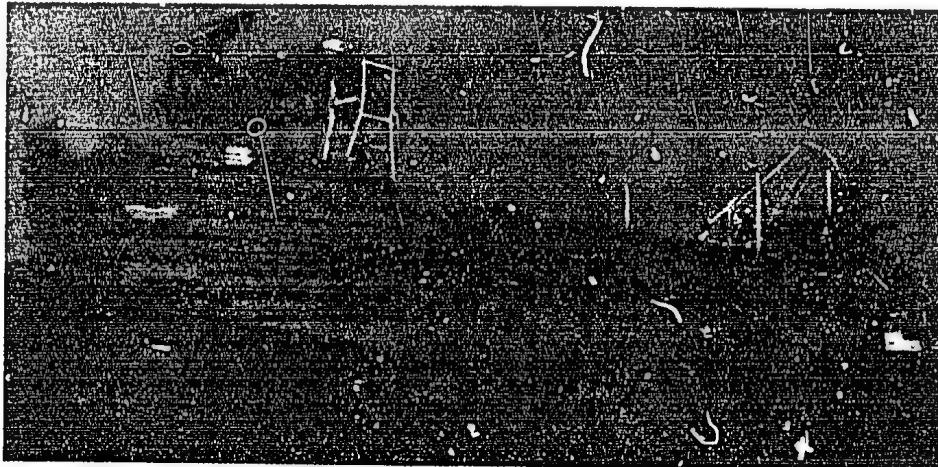
## POLISH SHIPBUILDING INCREASING

Ship exports in 1973 totaled \$331 million and were Poland's second leading export earner. Last year, Poland ranked 12th in world ship production, building 86 ships totaling almost 740,000 deadweight tons. In a number of categories—fishing boats, bulk carriers, and general-purpose dry-cargo ships—Warsaw ranked among the top three producers in the world. Between 70 and 80 percent of this production is exported.

Production in Polish shipyards has increased steadily since 1970, reaching new tonnage records each year. The five year plan (1971-75) called for the construction of about 350 ships totaling 3.6 million DWT; current trends suggest it will be surpassed.

The USSR is likely to remain the largest single customer, but an increasing number of Polish ships are being sold to Western countries. In 1970, the Soviet Union purchased about 60 percent of Polish ship production, but by 1973, its share had fallen to less than 40 percent. This was the first year that Poland exported a greater tonnage to the developed West than to communist countries.

To expand its shipbuilding capacity during 1971-75, Warsaw entered into a number of co-operation agreements with Western firms, including Mitsubishi of Japan for equipment and technology and International Computers Limited



*The Marszal Budionnyi, 105,000-ton ore-bulk-oil carrier being built in Gdynia for the USSR*

Year	Ships Produced			Ships Exported		
	Number of Ships	Deadweight tons (000)		Number of Ships	Deadweight tons (000)	
1970	53	515		43	400	
1971	56	600		39	405	
1972	67	700		50	520	
1973	86	740		57	610	
1974 (est)	106	764		76	550	
1975 (est)	100+	1,000+				

of the UK for a large computer center. Poland has attempted to stimulate foreign demand by offering to build a broad range of ships, rather than specializing in one or two types. Current production includes container and semi-container ships, ore/bulk/oil carriers, and a whole array of general cargo carriers. In addition, Polish yards have introduced a line of large, sophisticated fishing and fishing-support boats.

In the last few years, Poland has demonstrated an increased technological capability, and its ships are now equivalent to those produced in the West. For example, last year, the Gdynia shipyard, Poland's largest producer of bulk carriers, delivered two 55,000-DWT bulk carriers to Norwegian owners. This year, Poland launched a 105,000-DWT combination ore/bulk/oil carrier for the USSR and also began work on a series of roll-on/roll-off stern loaders for the Soviet Union.

Warsaw is reportedly offering to build container ships at prices 25-percent lower than other major shipbuilders.

In 1973, Poland obtained licenses to build liquefied natural gas and liquefied petroleum gas tankers. Poland has reportedly received an order for two 125,000 cubic meter LNG tankers and is negotiating additional sales with prospective US purchasers.

On the basis of past consumer acceptance of its high-quality products and relatively low-cost operation, Warsaw expects to expand export sales. To meet this anticipated demand, Warsaw plans to increase its investment in the shipbuilding industry over the next few years. In addition, Warsaw is seeking licenses for advanced technology—such as lighters-aboard-ships—from the West.

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## PHILIPPINES: REASSESSMENT TIME

Muslim rebels have renewed their offensive in the southern Philippines, causing President Marcos to order a reassessment of government counterinsurgency programs there. The latest round of attacks began last month, apparently in an attempt to gain the attention of the conference of Islamic foreign ministers that was meeting in Kuala Lumpur.

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The rebel campaign has continued since the conference and has included sabotaging of government installations as well as the more usual hit-and-run attacks against the military and civilians. Marcos finds the new rebel activity particularly disconcerting because it comes after several months of political, economic and military effort by the government to ease, if not resolve, the Muslim problem.

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In trying to come up with a successful policy for the south, Marcos is being pulled in two directions. The Islamic foreign ministers issued a communique on June 25 criticizing Philippine military operations against the Muslims and calling for a political resolution of the conflict. Philippine army commanders, however, are pushing for stronger military action against the rebels because the armed forces are taking substantial casualties, causing morale problems among the troops and bickering among the officers.

Although Marcos wants to increase military pressure, he is apparently still thinking of linking it with a negotiating effort.

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In seeking to open negotiations with Muslim groups, however, Marcos faces the problem of trying to determine which leaders are the most important and how much influence they might have on rival rebel groups.

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### The Fifth Islamic Conference



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## VIETNAM

### MORE FIGHTING

Communist forces have intensified their shellings and sapper attacks against government military facilities and have overrun a number of government outposts in widespread areas of the country. In southern Quang Nam Province, they are pressing toward the district capital of Duc Duc. Government reinforcements have moved into this sector, but have had little success pushing the Communists back. The fighting has forced thousands of refugees to flee toward Da Nang and other nearby population centers, and a few reports indicate the Communists are forcing some refugees into their areas.

North Vietnamese forces also have increased military pressure in the central highlands, where they have attacked two key government outposts northeast of Kontum City. A surge in fighting throughout the region has caused the government to call off its operation to retake territory lost earlier in Quang Duc Province.

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## CAMBODIA: A WEARY WAR

The Khmer Communists continued to maintain a low military profile throughout most of the country this week, carrying out minor shellings and ground probes against scattered government positions in the countryside. In the northwest, insurgent units in Battambang Province threatened several government outposts as part of their increased effort to gain control over more of the rice-growing areas and the local population.

In some areas, Cambodian army forces are making good use of the lull. North of Phnom Penh, government troops at the recently recaptured town of Oudong and at the nearby enclave at Lovek continue to consolidate and strengthen their positions. As a result of government battlefield successes in this sector, convoys of foodstuffs are again being moved down the Tonle Sap River from Kompong Chhnang City to Phnom Penh.

Southeast of the capital, government clearing operations along the lower stretches of the Mekong encountered little opposition and enabled approximately 2,000 refugees to return to government-controlled territory. In the far southwest, however, other government forces trying to relieve the isolated garrison at Kompong Seila ran into some strong resistance early in the week. Kompong Seila has been under steady pressure since mid-May, and about half of its 2,000 defenders have been killed or wounded.



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## LAOS: MALADIES

Under the ministrations of a flock of physicians from six countries, Prime Minister Souvanna has made slow but steady progress in recovering from his heart attack on July 12. At midweek, his prognosis had improved and his condition was free from serious complications.

Souvanna reaffirmed that he wants no major decisions to be made during his convalescence, and that he expects non-Communist Deputy Prime Minister Leuam Insiengmay and his Pathet Lao counterpart, Phoumi Vongvichit, to share equally in handling routine government business. That arrangement got off to an inauspicious start last week, however, when the regular cabinet meeting was canceled because the two could not agree on who should chair the session.

The political vacuum at the top comes at a particularly bad time; the new government is confronted with its first major economic crisis. Soaring prices, particularly of petroleum products, together with the expense of setting up the coalition, have lowered the country's foreign-exchange holdings dangerously, prompting the temporary closing of commercial banks and the suspension of foreign currency transactions. The

Lao Communists have not been much help. They refused to go along with a large devaluation recommended by the International Monetary Fund and proposed instead that the government seek \$2 million in foreign exchange from the US, China, and the Soviet Union as a stop-gap measure. When these three countries were approached, however, all said no. At last report, a special cabinet meeting was to be held on July 25 to discuss International Monetary Fund recommendations for easing the crisis.

In the meantime, prices increased for a number of commodities, including rice, which Thai merchants were holding off the market pending a new exchange rate. The Vientiane price index jumped almost 14 percent between July 17 and 25, registering a 53 percent increase over year-end 1973. Inflation will continue to accelerate until the government finds a way out of its fiscal dilemma.

### Playing Politics

Meanwhile, the Vientiane side of the coalition appears to have resolved the problem of how its nascent political front group should be organized at the top. Deputy Prime Minister Leuam, who leads the front, had caused considerable controversy by insisting that the organization's central committee be composed of a limited number of representatives from within the coalition structure. Leuam's non-Communist colleagues in the cabinet balked at this arrangement, however, and they insisted that the committee include provincial governors, representatives from various political associations, and members of the military in order to compete effectively with the Pathet Lao.

After some acrimonious wrangling, senior non-Communist leaders finally agreed that Defense Minister Sisouk na Champassak—the front's secretary general—would represent the interests of the military and of various political and social organizations on the committee. In reaching this compromise, it was evident that many members of the Vientiane side have become increasingly disenchanted with Leuam's uncertain leadership.

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Leuam Insiengmay



President Peron welcomes President Echeverria

## MEXICO: LATIN SOLIDARITY

Latin American solidarity against the industrialized nations—and, by implication, the US—is the major message being delivered by President Echeverria on his South American trip, now in its final week.

In Costa Rica and Ecuador, Echeverria harped on the need for a new economic structure to meet the requirements of less-developed countries and to ensure world peace and stability—a theme spelled out in his proposed charter of economic rights and duties for states. In Lima last week, Echeverria played out the theme further by proposing that Latin American countries form their own economic organization to defend their interests against the more powerful nations. He urged that an "economic forum" be established for mutual cooperation and consultation.

In effect, Echeverria wants an exclusively Latin group, separate from the established hemispheric organizations, that would devise strategies to get better treatment from the US in the economic field. Also, the President believes that the existing Latin forums need to be changed. In Buenos Aires this week, he told reporters that the

OAS no longer fulfills its purpose and that it must be revamped and its headquarters moved from Washington to Latin America.

The duties of Echeverria's new organization would be numerous, if not clear cut. They include defending prices of raw materials, getting capital goods and technology at fair prices, guaranteeing adequate food supplies, and encouraging scientific research and the exchange of technicians. Echeverria seems most intent on having such an organization secure better prices for exports. The object, in the end, may be to control prices by forming cartels. For example, in Costa Rica he supported the Oduber government's efforts to get higher prices for banana exports; in Ecuador he urged the Rodriguez government to join a multinational organization to control coffee sales; and in Peru he called for silver-producing nations to cooperate closely and eventually form a cartel to control prices.

Although the Latins are in basic agreement with the general concepts that Echeverria is advocating, the rivalries for influence in the hemisphere could pose a stumbling block.

Countries such as Peru and Argentina have pushed similar proposals. Others, such as Brazil, resent the efforts of Mexico in general, and of Echeverria in particular, to push forward into a position of leadership of the hemisphere. Still others feel that the existing OAS mechanism and the developing dialogue with Secretary Kissinger are the best ways to negotiate with Washington.

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## PERU: IMPORTANT CHANGES AHEAD

President Velasco's National Day speech on July 28 is likely to contain important clues regarding the military's plans for further restructuring Peruvian society. There is no indication, however, that any of the programs that he has in mind could generate the widespread civilian support that has eluded the military regime since it took power in 1968.

Unlike last year when he was still recovering from a near-fatal illness, Velasco now enjoys a commanding position as head of the military government. The President's medical problems make his future uncertain, however, and he is likely to use the National Day forum to emphasize the enduring, institutionalized, and collective character of the regime. Although he has made similar statements in the past, other evidence suggests that Velasco is engaged in a serious effort to prepare the country for continuing the revolution without him. The President may be contemplating stepping down sometime next year, but he is not likely to announce any specific plans for doing so.

Since January, Velasco has moved to place officers personally loyal to him in charge of all important troop commands. In May, the President forced the navy commander, Admiral Vargas, out of the cabinet, replacing him with a less moderate officer who apparently is more willing to carry out his programs. In what may be an allied move, Velasco reportedly has ordered the navy and air force academies to step up

graduations and to move forward the date for admitting new students. This may be the beginning of a long-term program to monitor the selection process for new candidates more closely and provide opportunities for a greater number of cadets from the lower classes and of more radical philosophy to enter the officer corps.

Newspaper owners are likely to be listening closely to the President's speech. Velasco reportedly has prepared a decree transferring control of Peru's major dailies to the government, giving workers a much greater role in managing these enterprises. A government take-over of newspapers would not sit well with the majority of Peruvians, but would strengthen leftist groups that have urged such a move for some time. Velasco himself is acutely sensitive to press criticism, and the more radical members of his cabinet appear to have convinced him that the time is ripe to move against the press.

Tighter government control of the newspapers, of course, would enable the more radical military leaders to choke off much of whatever public sentiment for more moderate policies might arise when Velasco steps down. Even with the support of government moderates, however, the public is not now in a position to challenge any action Velasco may take against the press.

The President may also announce moves to decrease further the role of private enterprise. Again, radical government leaders and leftist labor groups will welcome such a move, but rational economic considerations may compel Velasco to soften the disruptive impact on investment of such a decree.

The President already has announced that he will make public what he describes as the military's 1968 blueprint for revolutionizing Peru—the "Inca Plan"—to stress that the process is on schedule and that, for the foreseeable future, Peru needs strong military leadership. This particular plan, if it did exist in 1968, most likely has undergone numerous revisions. In any case, it will be used only to justify past policies and to set the stage for further radical measures.

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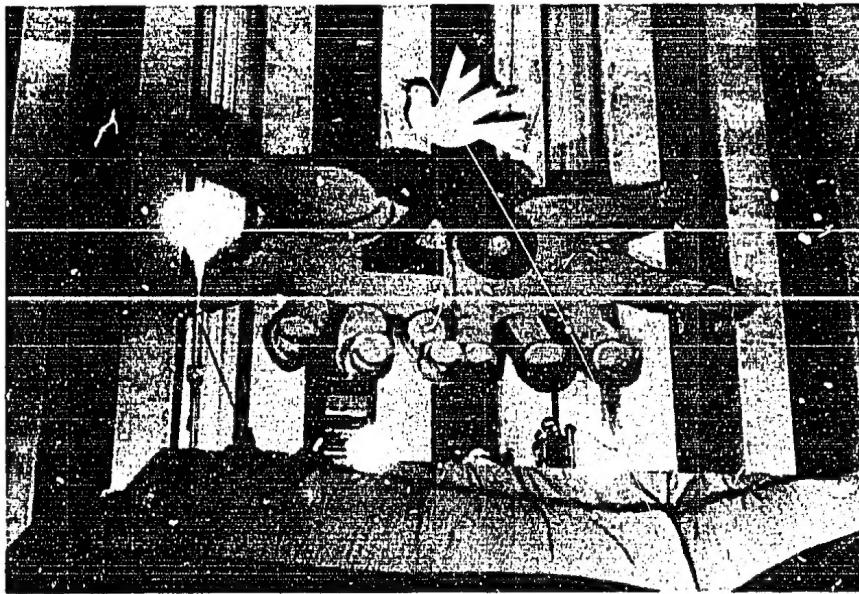
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## CUBA: CASTRO SPEAKS TODAY

Cuba's electoral experiment and improving hemispheric ties are likely to be the main themes of Fidel Castro's address highlighting this year's celebrations on July 26. It is hardly a coincidence that the main festivities marking the "national day of rebellion" are for the first time being held in Matanzas, the capital of the province where the experiment involving the popular election of government officials at the local, regional, and provincial levels is taking place. Sensitive to long-standing charges that questioned his commitment to democracy, Castro can now cite the elections to disarm foreign critics who claim he is afraid to put his regime to the test of a vote. In light of the current political climate in Latin America, the time is ripe for him to make some vague commitment to peaceful rather than violent revolution to provide ammunition for those hemispheric leaders who are anxious to re-integrate Cuba into the inter-American community. In the absence of any recent political or economic setbacks of consequence, the tone of his speech is likely to be optimistic, confident, and forward-looking.

The prominence of the occasion—the most important holiday in the revolutionary calendar—



gives Castro an excellent opportunity to exploit the growing pro-Cuban sentiment among many top Latin American politicians. He was in contact with several influential Mexican officials, including President Echeverria's brother, just prior to Echeverria's current trip through Latin America and presumably was made aware of, and gave his blessing to, the President's plan to stump for elimination of the OAS sanctions against Cuba. So far during the trip, Argentina and Peru have joined Echeverria in publicly questioning the justification for maintaining the sanctions.

Castro certainly also knows of Costa Rican Foreign Minister Gonzalo Facio's efforts to have the OAS review the sanctions question and thereby head off the independent restoration of Cuban diplomatic ties by Venezuela and Colombia. Fearful of the further damage such continued unilateral defiance of OAS resolutions would inflict on the regional organization, Facio prefers to open the way to full political and economic ties by having the OAS formally abrogate the sanctions. Each country would then be free to decide for itself, without international legal encumbrances, the suitability of relations with

Havana. A statement by Castro abjuring "export of the revolution," or even hinting at that possibility, would smooth the way considerably for Facio in convincing other Latin Americans of the Castro regime's good intentions.

The probability of Castro's publicly doing a complete about-face on violent revolution is slight, particularly in light of his attitude toward Chile. To do so would alienate some of his allies who already question his subservience to the Soviet Union and would destroy his credibility among Third World revolutionaries whose favor he wants to cultivate. He would not be averse, however, to making a general statement that describes the

Latin American regional scene as one in which differing political systems can interact without conflict and where differing ideologies can co-exist.

Such a statement might be enough to satisfy those leaders who, despite being favorably inclined toward Cuba's reintegration, are wedded to a policy of hostility in the absence of a pledge from Havana to forgo interference in other countries' internal affairs. In contrast to Castro's past exhortations to initiate armed struggle, this concession would be powerful evidence in Cuba's favor in OAS deliberations. Once a majority of members indicated an inclination to remove the sanctions, a stampede to climb on the bandwagon could well ensue.

As if to underline its reasonable attitude, Havana signed an anti-hijacking agreement with Colombia on July 22, removing an important impediment to better relations prior to the inauguration of President Lopez Michelsen on August 7. The last air piracy incident involving the two countries occurred last January when a Colombian airliner on a domestic flight was diverted to Havana by a lone gunman. The agreement, which covers "air and maritime piracy and similar crimes," is patterned on those already signed by Cuba with the US, Canada, Mexico and Venezuela.

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## PANAMA: STILL GOING STRONG

The Panamanian economy is buoyant despite a soaring import bill. Gross domestic product rose 6.5 percent in 1973, and a good gain is likely this year. Government revenues are up, public investment is booming, and private capital outlays seem strong.

The energy crisis is hurting Panama less than most other developing countries that import oil. Part of the estimated \$100-million rise this year in crude oil import costs—equal to about 10 percent of GDP—apparently is being offset by higher prices charged for the petroleum products that

Panama exports or sells as bunker fuels. Government borrowing abroad and large private capital inflows—especially into the banking system—are averting balance-of-payments strains despite the large increase in the chronic trade deficit.

Higher import prices and the growing money supply, however, are contributing to domestic inflation. Retail prices were rising at a 15-percent annual rate as of April, and the inflationary spiral has been intensified by a 10- to 20-percent general wage increase effective in May and June.

Rapid economic growth is boosting government revenues, and long-term commercial loans obtained last year have all but eliminated the short-term government debt that had caused earlier financial problems. Debt service has been cut from 30 percent of the budget in 1973 to 20 percent this year. Although the government is increasing public investment outlays about 40 percent, the deficit probably will not greatly exceed last year's, which was the smallest in nearly a decade.

Business circles apparently are optimistic. Private investment seemed likely to decline last fall when businessmen, displeased with the government's handling of new housing legislation, threatened an economic slowdown, but Torrijos evidently has appeased the business community. The pace-setting construction industry seems to have regained momentum.

Because of the general economic buoyancy, Torrijos can afford to be patient in negotiating with the US on the amount of direct annual payments by the Panama Canal Company. A high payment would be a welcome addition to government revenues, however, permitting the government to increase spending by the amount of the payment without any tax increase. A sum of \$100 million annually—the largest amount thus far mentioned by Panamanian sources—would increase government revenues by about 40 percent, for example. The present annual payment is \$23 million.

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